

KEYES COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2015

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## **Robert A. Hawks, Jr., CPA**

• *think BOLDLY* • *plan CAREFULLY* • *execute PRECISELY* •

### INDEPENDENT AUDITOR'S REPORT

Governing Board  
Keyes Community Services District  
Keyes, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Keyes Community Services District as of and for the year ended June 30, 2015, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Governmental Fund – Street Lighting Fund	Unmodified
Sewer Enterprise Fund	Unmodified
Water Enterprise Fund	Qualified
Aggregate Remaining Fund Information	Unmodified

### Basis for Qualified Opinion on the Water Enterprise Fund

We were unable to obtain sufficient competent audit evidence regarding the balance of the refundable customer security deposit liability in the Water Fund. The system for collection and payment of customer deposit refunds lacks reliable internal controls, and record retention was insufficient to permit reconstruction or application of alternative procedures. Accordingly, we were unable to satisfy ourselves that the customer deposit liability balance was free from material misstatement.

### Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the “Basis for Qualified Opinion on the Water Enterprise Fund” paragraph above, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major and non-major fund of the District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages 6 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic

financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Certified Public Accountant

June 27, 2016

## **KEYES COMMUNITY SERVICES DISTRICT**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

Fiscal Year Ended June 30, 2015

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information.

This discussion and analysis of the financial performance of the Keyes Community Services District ("KCSD") provides an overview of the District's financial activities for the fiscal year ended June 30, 2015. It is management's view of the District's financial condition. It should be read in conjunction with the Independent Auditor's Report, the basic financial statements and the accompanying notes to those financial statements.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are District-wide financial statements that provide both short-term and long-term information about the District's overall financial status. Because these statements include all District funds, it should be noted that certain inter-fund and other types of transactions that net to zero have been eliminated so that District-wide revenues and expenditures are not artificially inflated.
- The remaining statements are fund-level financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.

These two kinds of statements report the District's net position and changes in it. Net Position is the difference between assets and liabilities, which is one way to measure the District's financial health, or financial position. Generally, over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating.

The financial statements also include notes that explain some of the information in the statements. These notes are considered to be an integral part of the financial statements and should be considered with them when looking at the District's financial picture.

The financial statements would be followed by a section of required supplementary information but the District has no additional required supplementary information.

In the District-wide financial statements the District's activities are shown as Governmental Activities and Proprietary Activities. The District has two funds that are classified as Business-type or fiduciary

activities, which are called Proprietary Activities. The fund financial statements provide more detailed information about the District’s most significant funds, including the two Business-type activities—but not the District as a whole.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District completed the current year with its funds reporting a *combined* fund balance of approximately \$6.7 million, an increase of approximately 17.3% over last year’s ending fund balance. The increase in combined fund balance was the result of a net income from the business-type operations and an excess of revenues over expenditures in the governmental fund.

Table 1 – Ending Fund Balances

Fund	Ending Balance	
	06/30/14	06/30/15
Governmental Activities	\$ 82,036	\$ 127,009
Proprietary Activities	\$ 5,598,900	\$ 6,536,151
Total Fund Balances	\$ 5,680,936	\$ 6,663,160

There were ongoing project construction and acquisition expenditures in the amount of \$394,417 during the year ended June 30, 2015. Operating costs, expenses, and expenditures were \$1,463,947 and debt service payments were \$293,960. The annual service fees, tax levy collections and interest earnings during the year were more than enough to cover the capital expenditures, operating costs, debt service payments and administrative costs during the year.

**Net Position.** The Statement of Net Position is shown in Table 2 and net position represents the portion of total assets actually owned free and clear by the District. The District’s primary assets are infrastructure including pipelines and related facilities. The District has a positive Net Position value for the year ending June 30, 2015 of \$6.7 million. This figure represents the amount the District would own if all operations were ceased at June 30, 2015, and all receivables were collected and payables paid.

**Changes in Net Position.** Revenues are generated by an annual tax levy, service charges and related fees, and interest on investments. Expenses and expenditures include administration, debt service, operation of the infrastructure facilities, and delivery of services.

As shown in Table 3, the District’s total net position value increased by \$0.98 million over the prior year.

The decrease in Long-Term Liabilities reflects the result of paying down of debt .

**Activities.** Total revenues for the year ended June 30, 2015 were \$2,465,491, increasing from \$2,246,356 in the prior year. Table 4 displays total Program and General revenues by major source, total program expenses by function, and total expenses. Total expenses for the year ended June 30, 2015 were \$1,483,267, decreasing slightly from \$1,522,724 in the prior year.

Table 2 – Statement of Net Position

	<b>6/30/2015</b>
<b>ASSETS</b>	
Cash and Investments	\$ 3,050,489
Accounts Receivable	251,985
Prepaid Expenses	9,888
Easements	32,290
Capital Assets (Net of Accumulated Depreciation):	<u>5,009,191</u>
Total Assets	<u>\$ 8,353,843</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Pensions	<u>\$ 38,285</u>
<b>LIABILITIES</b>	
Current Liabilities	
Accounts Payable	\$ 41,687
Deferred Revenue	-
Developers Payable	-
Compensated Absences	16,125
Customer Deposits	80,137
Accrued Interest	-
Net Pension Liability	301,944
Long-Term Debt:	
Due Within One Year	1,031,558
Due In More Than One Year	<u>203,960</u>
Total Liabilities	<u>1,675,411</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Pensions	<u>53,557</u>
<b>NET POSITION</b>	
Invested in Capital Assets	
Net of Related Debt	3,951,168
Restricted For	
Bond Payment	876,000
Streetlight Fund	127,009
Assigned	<u>1,708,983</u>
Total Net Position	<u>\$ 6,663,160</u>

Table 3 – Change in Net Position

	<b>6/30/2015</b>	<b>6/30/2014</b>	<b>Change</b>
<b>ASSETS</b>			
Cash and Investments	\$ 3,050,489	\$ 2,474,413	\$ 576,076
Accounts Receivable	251,985	218,764	33,221
Prepaid Expenses	9,888	17,880	(7,992)
Easements	32,290	32,290	-
Capital Assets (Net of Accumulated Depreciation):	<u>5,009,191</u>	<u>4,813,012</u>	<u>196,179</u>
Total Assets	<u>\$ 8,353,843</u>	<u>\$ 7,556,359</u>	<u>\$ 797,484</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Pensions	<u>\$ 38,286</u>	<u>\$ 42,228</u>	<u>\$ (3,942)</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	\$ 41,687	\$ 61,843	\$ (20,156)
Deferred Revenue	-	-	-
Developers Payable	-	-	-
Compensated Absences	16,125	40,631	(24,506)
Customer Deposits	80,137	73,661	6,476
Accrued Interest	-	1,027	(1,027)
Net Pension Liability	301,944	210,460	91,484
Long-Term Debt:			
Due Within One Year	1,031,558	245,558	786,000
Due In More Than One Year	<u>203,960</u>	<u>1,283,920</u>	<u>(1,079,960)</u>
Total Liabilities	<u>1,675,411</u>	<u>1,917,651</u>	<u>(242,240)</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Pensions	<u>53,558</u>	<u>-</u>	<u>53,558</u>
<b>NET POSITION</b>			
Invested in Capital Assets			
Net of Related Debt	3,951,168	3,557,833	393,335
Restricted For			
Bond Payment	876,000	966,000	(90,000)
Streetlight Fund	127,009	82,036	44,973
Assigned	<u>1,708,983</u>	<u>1,075,067</u>	<u>633,916</u>
Total Net Position	<u>\$ 6,663,160</u>	<u>\$ 5,680,936</u>	<u>\$ 982,224</u>

Table 4 – Statement of Activities

Functions/Programs	Expenses	Program Revenues
		Fines, Fees and Charges For Services
Primary Government:		
Governmental Activities:		
Street Lighting	\$ (19,865)	\$ 64,436
Total Governmental Activities	<u>(19,865)</u>	<u>64,436</u>
Business-Type Activities:		
Water Services	(576,694)	1,121,137
Sewer Services	<u>(886,708)</u>	<u>1,127,519</u>
Total Business-Type Activities	<u>(1,463,402)</u>	<u>2,248,656</u>
Total Primary Government	<u>\$ (1,483,267)</u>	<u>\$ 2,313,092</u>
<b>General Revenues:</b>		
Property Taxes		\$ 5,913
Miscellaneous		125,573
Investment Earnings		<u>20,913</u>
Total General Revenues		<u>152,399</u>
Change In Net Position		<u>\$ 982,224</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District's funds are divided into two categories for financial statement representation purposes – major funds and non-major funds. The major funds are the Proprietary Activities Funds. The non-major fund is the Governmental Activities Fund, which finances streetlight service.

Each of the District's funds realized an increase in Net Position for the year, as a result of recent increases in assessments, rates and fees.

As shown in Table 5, the District's Non-Major Governmental Activities fund budget variance was minimal and positive. The anticipated revenue came in slightly over budget, and the expenditures were under budget because of a delay of the District's streetlight installation project. This action resulted in an excess of Revenues over Expenditures of more than the budgeted amount.

Table 5 – Street Light Fund Budget Analysis

	Budgeted Amounts		Actual	Variance With Final Budget Over (Under)
	Original	Final		
<b>Revenues</b>				
Street Light Fee	\$ 64,000	\$ 64,000	\$ 64,436	\$ 436
Investment Earnings	150	150	402	252
Total Revenues	64,150	64,150	64,838	688
<b>Expenditures</b>				
Salaries and Benefits	-	-	-	-
Supplies and Services	25,300	25,300	19,865	(5,435)
Total Expenditures	25,300	25,300	19,865	(5,435)
Excess (Deficiency) of Revenues Over Expenditures	38,850	38,850	44,973	6,123
Net Change In Fund Balances	38,850	38,850	44,973	6,123
Fund Balance - Beginning	82,036	82,036	82,036	-
Fund Balance - Ending	\$ 120,886	\$ 120,886	\$ 127,009	\$ 6,123

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

Following is a summary of fixed assets and Work-In-Process (WIP):

<b>Capital Assets at June 30, 2015</b>				
			<b>Totals</b>	
	<b>Water</b>	<b>Sewer</b>	<b>2015</b>	<b>2014</b>
Land	\$ 23,074	\$ 25,060	\$ 48,134	\$ 48,134
Depreciable Assets	1,984,590	5,016,302	7,000,892	6,967,911
Less: Accumulated Depreciation	<u>(1,367,108)</u>	<u>(2,208,474)</u>	<u>(3,575,582)</u>	<u>(3,379,125)</u>
<b>Totals</b>	<b><u>\$ 640,556</u></b>	<b><u>\$ 2,832,888</u></b>	<b><u>\$ 3,473,444</u></b>	<b><u>\$ 3,636,920</u></b>
Major work-in-progress including additions are:				
First Drinking Water	\$ 1,462,175	\$ -	\$ 1,462,175	\$ 1,100,739
Lift Station	<u>-</u>	<u>73,572</u>	<u>73,572</u>	<u>75,353</u>
<b>Totals</b>	<b><u>\$ 1,462,175</u></b>	<b><u>\$ 73,572</u></b>	<b><u>\$ 1,535,747</u></b>	<b><u>\$ 1,176,092</u></b>

Work-in-Process on the First Drinking Water project during the year ended June 30, 2015 included the construction design of the Arsenic Treatment Facility, and design of well head modifications. (activity). Land acquisition has been completed and the project is on/behind/ahead of schedule for completion in 05/2017.

### Long-Term Debt

Keyes Community Service District signed an agreement with the City of Turlock for 50% ownership of a sewer pipeline located on Tegner Road. For this percentage of the pipeline the District is obligated to pay \$1,071,564. Annual payments of \$107,156 were set to begin on July 1, 2008 and extend for ten years. The principal balance due at year-end was \$214,313. Interest expense during the year ended June 30, 2015 was \$827.

On July 1, 2013, Keyes Community Services District entered into a loan agreement with the Bank of Nevada in the amount of \$1,250,000.00 for the purpose, among others, of acquiring property, designing and constructing improvements to the water system and to finance and refinance the acquisition and construction of such facilities through the execution of secured limited obligation notes. Principal payments of \$45,000 plus accrued interest are due on July 1 and January 1 each year. The balance is due under terms of the loan in January 2016 and has been paid in full. Interest expense during the year ended June 30, 2015 was \$18,493.

## FACTORS BEARING ON THE DISTRICT'S FINANCIAL FUTURE

The housing market and the economy in the surrounding area and in California have experienced a significant downturn, resulting in fewer new service connections. In spite of the bad economy, the District has seen steady revenues and a slight decline in receivables. This is mostly due to a water and

sewer rate study completed in 2011. Rate increases went into effect beginning in July 2011. A new subdivision was recently approved by Stanislaus County and may impact future connections and revenues.

The construction design, plans and specifications for the Arsenic Mitigation Project have been completed and are under current review for approval and acceptance by the State of California. The acquisition of the property for construction of these water system improvements was completed in early 2015. Significant construction cost expenditures will occur following land acquisition.

At the time these financial statements were prepared and audited, the District was not aware of any other circumstances that could significantly affect its financial health in the future.

#### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the staff or the board of directors at: Keyes Community Services District, 5601 7<sup>th</sup> Street, Keyes, CA 95328 – (209) 668-8341.

KEYES COMMUNITY SERVICE DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2015

	Primary Government		Total
	Governmental Activities	Proprietary Activities	2015
<b>ASSETS</b>			
Cash and Investments	\$ 125,099	\$ 2,925,390	\$ 3,050,489
Accounts Receivable	1,910	250,075	251,985
Prepaid Expenses	-	9,888	9,888
Easements	-	32,290	32,290
Capital Assets (Net of Accumulated Depreciation):			
Land	-	48,133	48,133
Construction in Progress	-	1,535,747	1,535,747
Buildings and Improvements	-	3,078	3,078
Equipment and Vehicles	-	102,921	102,921
Infrastructure	-	3,319,312	3,319,312
Total Assets	<u>\$ 127,009</u>	<u>\$ 8,226,834</u>	<u>\$ 8,353,843</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Pensions	<u>\$ -</u>	<u>\$ 38,286</u>	<u>\$ 38,286</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	\$ -	\$ 25,942	\$ 25,942
Compensated Absences	-	15,676	15,676
Payroll Liabilities	-	16,125	16,125
Customer Deposits	-	80,137	80,137
Accrued Interest	-	-	-
Other Current Liabilities	-	69	69
Current Portion of Long-Term Debt	-	1,031,558	1,031,558
Total Current Liabilities	-	1,169,507	1,169,507
Noncurrent Liabilities			
Net Pension Liability	-	301,944	301,944
Long-Term Debt	-	203,960	203,960
Total Liabilities	-	1,675,411	1,675,411
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Pensions	-	53,558	53,558
<b>NET POSITION</b>			
Invested in Capital Assets			
Net of Related Debt	-	3,951,168	3,951,168
Restricted For:			
Bond Payment	-	876,000	876,000
Street Lighting	127,009	-	127,009
Unrestricted	-	1,708,983	1,708,983
Total Net Position	<u>\$ 127,009</u>	<u>\$ 6,536,151</u>	<u>\$ 6,663,160</u>

See Accompanying Notes to Basic Financial Statements

KEYES COMMUNITY SERVICE DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues Fines, Fees and Charges For Services	Net (Expense) Revenue and Changes In Net Assets Primary Government		
			Governmental Activities	Proprietary Activities	District Total
Primary Government:					
Governmental Activities:					
Street Lighting	\$ (19,865)	\$ 64,436	\$ 44,571	\$ -	\$ 44,571
Total Governmental Activities	<u>(19,865)</u>	<u>64,436</u>	<u>44,571</u>	<u>-</u>	<u>44,571</u>
Business-Type Activities:					
Water Services	(576,694)	1,121,137	-	544,443	544,443
Sewer Services	(886,708)	1,127,519	-	240,811	240,811
Total Business-Type Activities	<u>(1,463,402)</u>	<u>2,248,656</u>	<u>-</u>	<u>785,254</u>	<u>785,254</u>
Total Primary Government	<u>\$ (1,483,267)</u>	<u>\$ 2,313,092</u>	<u>\$ 44,571</u>	<u>\$ 785,254</u>	<u>\$ 829,825</u>
<b>General Revenues:</b>					
Property Taxes			\$ -	\$ 5,913	\$ 5,913
Miscellaneous			-	125,573	125,573
Investment Earnings			<u>402</u>	<u>20,511</u>	<u>20,913</u>
Total General Revenues			<u>402</u>	<u>151,997</u>	<u>152,399</u>
Change In Net Position			44,973	937,251	982,224
Net Position - Beginning			82,036	5,749,362	5,831,398
Prior Period Adjustment - Pensions			-	(168,232)	(168,232)
Prior Period Adjustment - Corrections			-	17,770	17,770
Net Position - Ending			<u>\$ 127,009</u>	<u>\$ 6,536,151</u>	<u>\$ 6,663,160</u>

See Accompanying Notes To Basic Financial Statements

KEYES COMMUNITY SERVICE DISTRICT  
NONMAJOR GOVERNMENTAL FUND  
BALANCE SHEET  
JUNE 30, 2015

	<b>Street Lighting Fund</b>
<b>Assets</b>	
Cash and Investments	\$ -
Accounts Receivable	1,910
Restricted Assets	
Cash and Investments	125,099
Due From Other Funds	-
Total Assets	\$ 127,009
<b>Liabilities</b>	
Accounts Payable	\$ -
Total Liabilities	-
<b>Fund Balances</b>	
Nonspendable	-
Restricted - Street Light Assessments	127,009
Committed	-
Assigned	-
Unassigned	-
Total Fund Balances	127,009
Total Liabilities and Fund Balances	\$ 127,009

See Accompanying Notes to Basic Financial Statements

KEYES COMMUNITY SERVICE DISTRICT  
NONMAJOR GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2015

	<b>Street Lighting</b>
<b>Revenues</b>	
Street Light Special Assessment	\$ 64,436
Intergovernmental	-
Investment Earnings	402
Total Revenues	64,838
 <b>Expenditures</b>	
Supplies and Services	19,865
 Net Change In Fund Balances	
Excess (Deficiency) of Revenues Over Expenditures	44,973
Fund Balance - Beginning	82,036
Fund Balance - Ending	\$ 127,009

KEYES COMMUNITY SERVICE DISTRICT  
STREET LIGHTING FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND  
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance With Final Budget Over (Under)
	Original	Final		
<b>Revenues</b>				
Street Light Fee	\$ 64,000	\$ 64,000	\$ 64,436	\$ 436
Investment Earnings	150	150	402	252
Total Revenues	<u>64,150</u>	<u>64,150</u>	<u>64,838</u>	<u>688</u>
<b>Expenditures</b>				
Salaries and Benefits	-	-	-	-
Supplies and Services	25,300	25,300	19,865	(5,435)
Total Expenditures	<u>25,300</u>	<u>25,300</u>	<u>19,865</u>	<u>(5,435)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>38,850</u>	<u>38,850</u>	<u>44,973</u>	<u>6,123</u>
Net Change In Fund Balances	38,850	38,850	44,973	6,123
Fund Balance - Beginning	<u>82,036</u>	<u>82,036</u>	<u>82,036</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 120,886</u>	<u>\$ 120,886</u>	<u>\$ 127,009</u>	<u>\$ 6,123</u>

KEYES COMMUNITY SERVICE DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2015

	<b>Business-Type Activities-Enterprise Funds</b>				<b>Total</b>
	<b>Sewer</b>		<b>Water</b>		
	<b>Operating Fund</b>	<b>Capital Improvement Fund</b>	<b>Operating Fund</b>	<b>Capital Improvement Fund</b>	
				<b>2015</b>	
<b>Assets</b>					
Current Assets					
Cash and Investments	\$ 756,860	\$ 173,338	\$ 1,995,192	\$ -	\$ 2,925,390
Accounts Receivable	119,575	-	130,500	-	250,075
Prepaid Expenses	-	-	9,888	-	9,888
Total Current Assets	<u>876,435</u>	<u>173,338</u>	<u>2,135,580</u>	<u>-</u>	<u>3,185,353</u>
Fixed Assets					
Construction in Progress	73,572	-	1,462,175	-	1,535,747
Easement	32,290	-	-	-	32,290
Fixed Assets	5,041,362	-	2,007,664	-	7,049,026
Accumulated Depreciation	<u>(2,208,474)</u>	<u>-</u>	<u>(1,367,108)</u>	<u>-</u>	<u>(3,575,582)</u>
Total Fixed Assets	<u>2,938,750</u>	<u>-</u>	<u>2,102,731</u>	<u>-</u>	<u>5,041,481</u>
Total Assets	<u>\$ 3,815,185</u>	<u>\$ 173,338</u>	<u>\$ 4,238,311</u>	<u>\$ -</u>	<u>\$ 8,226,834</u>
Deferred Outflows of Resources					
Deferred Pensions	<u>\$ 19,143</u>	<u>\$ -</u>	<u>\$ 19,143</u>	<u>\$ -</u>	<u>\$ 38,286</u>
<b>Liabilities</b>					
Current Liabilities					
Accounts Payable	\$ 22,855	\$ -	\$ 3,087	\$ -	\$ 25,942
Compensated Absences	7,838	-	7,838	-	15,676
Payroll Liabilities	8,094	-	8,031	-	16,125
Customer Deposits	-	-	80,137	-	80,137
Accrued Interest	-	-	-	-	-
Other Current Liabilities	69	-	-	-	69
Current Portion of Long-Term Debt	<u>107,156</u>	<u>-</u>	<u>876,000</u>	<u>48,402</u>	<u>1,031,558</u>
Total Current Liabilities	<u>146,012</u>	<u>-</u>	<u>975,093</u>	<u>48,402</u>	<u>1,169,507</u>
Noncurrent Liabilities					
Net Pension Liability	150,972	-	150,972	-	301,944
Net Long-Term Debt	<u>107,157</u>	<u>-</u>	<u>-</u>	<u>96,803</u>	<u>203,960</u>
Total Noncurrent Liabilities	<u>258,129</u>	<u>-</u>	<u>150,972</u>	<u>96,803</u>	<u>505,904</u>
Total Liabilities	<u>404,141</u>	<u>-</u>	<u>1,126,065</u>	<u>145,205</u>	<u>1,675,411</u>
Deferred Inflows of Resources					
Deferred Pensions	<u>26,779</u>	<u>-</u>	<u>26,779</u>	<u>-</u>	<u>53,558</u>
<b>Net Position</b>					
Invested in Capital Assets					
Net of Related Debt	2,724,437	-	1,226,731	-	3,951,168
Restricted	-	-	876,000	-	876,000
Unrestricted	<u>678,971</u>	<u>173,338</u>	<u>1,001,879</u>	<u>(145,205)</u>	<u>1,708,983</u>
Total Net Position	<u>\$ 3,403,408</u>	<u>\$ 173,338</u>	<u>\$ 3,104,610</u>	<u>\$ (145,205)</u>	<u>\$ 6,536,151</u>

See Accompanying Notes to Basic Financial Statements

KEYES COMMUNITY SERVICE DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2015

	<b>Business-Type Activities-Enterprise Funds</b>				
	<b>Sewer</b>		<b>Water</b>		<b>Total Enterprise Funds</b>
	<b>Operating Fund</b>	<b>Capital Improvement Fund</b>	<b>Operating Fund</b>	<b>Capital Improvement Fund</b>	
Operating Revenues					
Service Charges	\$ 1,127,519	\$ -	\$ 1,073,338	\$ -	\$ 2,200,857
Property Taxes	-	-	5,913	-	5,913
Late Charges	-	-	47,799	-	47,799
Miscellaneous	60	-	92,513	-	92,573
Total Operating Revenues	<u>1,127,579</u>	<u>-</u>	<u>1,219,563</u>	<u>-</u>	<u>2,347,142</u>
Operating Expenses					
Salaries and Benefits	356,403	-	338,210	-	694,613
Supplies and Services	382,393	8,188	162,431	-	553,012
Depreciation	138,897	-	57,560	-	196,457
Total Operating Expenses	<u>877,693</u>	<u>8,188</u>	<u>558,201</u>	<u>-</u>	<u>1,444,082</u>
Operating Income (Loss)	<u>249,886</u>	<u>(8,188)</u>	<u>661,362</u>	<u>-</u>	<u>903,060</u>
Nonoperating Revenues (Expenses)					
Investment Earnings	4,334	506	15,671	-	20,511
Connection Fees	-	12,000	-	21,000	33,000
Interest Expense	(827)	-	(18,493)	-	(19,320)
Total Nonoperating Revenues (Expenses)	<u>3,507</u>	<u>12,506</u>	<u>(2,822)</u>	<u>21,000</u>	<u>34,191</u>
Net Income (Loss)	253,393	4,318	658,540	21,000	937,251
Operating Transfer In	-	-	-	75,804	75,804
Operating Transfer Out	-	-	(75,804)	-	(75,804)
Total Operating Transfers	<u>-</u>	<u>-</u>	<u>(75,804)</u>	<u>75,804</u>	<u>-</u>
Change in Net Position	253,393	4,318	582,736	96,804	937,251
Net Position					
Net Position - Beginning	3,243,071	169,020	2,579,280	(242,009)	5,749,362
Prior Period Adjustment, Pensions	(84,116)	-	(84,116)	-	(168,232)
Prior Period Adjustment, Corrections	(8,940)	-	26,710	-	17,770
Total Net Position - Ending	<u>\$ 3,403,408</u>	<u>\$ 173,338</u>	<u>\$ 3,104,610</u>	<u>\$ (145,205)</u>	<u>\$ 6,536,151</u>

See Accompanying Notes to Basic Financial Statements

KEYES COMMUNITY SERVICE DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOW  
 FOR THE YEAR ENDED JUNE 30, 2015

	<b>Business-Type Activities-Enterprise Funds</b>				
	<b>Sewer</b>		<b>Water</b>		<b>Total Enterprise Funds</b>
	<b>Operating Fund</b>	<b>Capital Improvement Fund</b>	<b>Operating Fund</b>	<b>Capital Improvement Fund</b>	
<b>Cash Flows From Operating Activities</b>					
Receipts From Customers	\$ 1,110,524	\$ -	\$ 1,209,873	\$ -	\$ 2,320,397
Payments to Suppliers	(391,870)	(8,188)	(160,293)	-	(560,351)
Payments to Employees and Benefit Plans	(279,737)	-	(295,020)	-	(574,757)
Net Cash Provided By (Used In) Operating Activities	<u>438,917</u>	<u>(8,188)</u>	<u>754,560</u>	<u>-</u>	<u>1,185,289</u>
<b>Cash Flows From Financing Activities</b>					
Connection Fees and Other	-	12,000	-	21,000	33,000
Transfers from (to) other funds	-	-	(75,804)	75,804	-
Work In Progress and Asset Purchases	(32,981)	-	(361,436)	-	(394,417)
Principal Payments on Long Term Debt	(107,156)	-	(90,000)	(96,804)	(293,960)
Proceeds of Long Term Debt Issuance	-	-	-	-	-
Interest Paid	(827)	-	(18,493)	-	(19,320)
Net Cash Provided By (Used In) Financing Activities	<u>(140,964)</u>	<u>12,000</u>	<u>(545,733)</u>	<u>-</u>	<u>(674,697)</u>
<b>Cash Flows From Investing Activities</b>					
Interest Received	4,334	506	15,671	-	20,511
Net Cash Provided By (Used In) Investing Activities	<u>4,334</u>	<u>506</u>	<u>15,671</u>	<u>-</u>	<u>20,511</u>
Net Increase (Decrease) In Cash	302,287	4,318	224,498	-	531,103
Cash and Investments At Beginning of Year	<u>454,573</u>	<u>169,020</u>	<u>1,770,694</u>	<u>-</u>	<u>2,394,287</u>
Cash and Investments At End of Year	<u>\$ 756,860</u>	<u>\$ 173,338</u>	<u>\$ 1,995,192</u>	<u>\$ -</u>	<u>\$ 2,925,390</u>

See Accompanying Notes to Basic Financial Statements

KEYES COMMUNITY SERVICE DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOW  
 FOR THE YEAR ENDED JUNE 30, 2015

	<b>Business-Type Activities-Enterprise Funds</b>				
	<b>Sewer</b>		<b>Water</b>		<b>Total Enterprise Funds</b>
	<b>Operating Fund</b>	<b>Capital Improvement Fund</b>	<b>Operating Fund</b>	<b>Capital Improvement Fund</b>	
Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities					
Net Operating Income (Loss)	\$ 249,886	\$ (8,188)	\$ 661,362	\$ -	\$ 903,060
Non-Cash Items Included in Net Income					
Depreciation	138,897	-	57,560	-	196,457
(Increase) Decrease In Accounts Receivable	(17,055)	-	(16,166)	-	(33,221)
(Increase) Decrease In Prepaid Expenses	8,940	-	(948)	-	7,992
Increase (Decrease) In Accounts Payable	(10,231)	-	(8,090)	-	(18,321)
Increase (Decrease) In Compensated Absences	(2,311)	-	(2,311)	-	(4,622)
Increase (Decrease) In Payroll Liabilities	(2,674)	-	(2,281)	-	(4,955)
Increase (Decrease) In Customer Deposits	-	-	6,476	-	6,476
Increase (Decrease) In Net Pension Liability	74,492	-	74,492	-	148,984
Increase (Decrease) In Other Liabilities	(1,027)	-	(15,534)	-	(16,561)
Net Cash Provided By (Used In) Operating Activities	<u>\$ 438,917</u>	<u>\$ (8,188)</u>	<u>\$ 754,560</u>	<u>\$ -</u>	<u>\$ 1,185,289</u>

See Accompanying Notes to Basic Financial Statements

KEYES COMMUNITY SERVICE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The basic financial statements of the Keyes Community Service District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Significant accounting policies are described below:

**A. Reporting Entity**

The Keyes Community Services District was incorporated in December 1972. The District provides the following services: Street Lighting, Water and Wastewater Treatment.

The District operates under a Board of Directors form of government. The Board of Directors consists of five members elected at large for overlapping four year terms. The District appoints a District Attorney.

Oversight responsibility, the ability to conduct independent financial affairs, issue debt instruments, approve budgets, sign contracts, levy taxes, and otherwise influence operations, and account for fiscal matters, is exercised by the District's governing board. Accordingly, the District is considered to be a separate reporting entity for financial reporting purposes and the accompanying financial statements reflect only the assets, liabilities, fund balances, revenues and expenditures of the District.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of Net Position and the statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) operating revenues as charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) nonoperating revenues as grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements (note the District has no fiduciary funds). Major individual governmental funds are reported as separate columns in the fund financial statements.

KEYES COMMUNITY SERVICE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

**B. Government-wide and fund financial statements (continued)**

Implementation of New Accounting Pronouncements

For the fiscal year ended June 30, 2014, the Agency was required to adopt GASB Statement No. 68: Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources and expenditures for defined benefit pension plans. The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2015.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes and interest are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the District and are recognized as revenue at that time.

The District reports the following nonmajor governmental fund:

The **Street Light fund** accounts for the activities of the district’s street light service.

The District reports the following proprietary funds:

The major **Water Operating Fund** accounts for the activities of the District’s water service.

The major **Water Capital Improvement Fund** accounts for the fixed asset financing and purchasing activities of the District’s water service.

The major **Sewer Operating Fund** accounts for the activities of the District’s wastewater (sewer) service.

KEYES COMMUNITY SERVICE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation  
(continued)**

The nonmajor **Sewer Capital Improvement Fund** accounts for the fixed asset financing and purchasing activities of the District's wastewater (sewer) service.

**D. Assets, Liabilities, and Net Position or Equity**

**1. Cash and Investments**

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the District. The District follows the practice of pooling the cash from all funds for investment purposes. Investments consist primarily of passbook savings and Stanislaus County Treasurer's Pool public deposits. All investments are stated at cost, which approximates market value.

California State statute authorizes the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

**2. Receivables and Payables**

Transactions between funds that are representative of lending/borrowing outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

**3. Property Taxes**

Property taxes are levied on the first day of March by the County assessor, and are payable to the County Tax Collector in two installments.

The first installment is due November 1<sup>st</sup>, and becomes delinquent December 10<sup>th</sup>; the second installment is due February 1<sup>st</sup>, and becomes delinquent April 10<sup>th</sup>. Taxes become a lien on the property on March 1<sup>st</sup>, and on the date of transfer of title, and the date of new construction.

The minimum property value which is taxed is \$2,000; however, tax bills are prepared for properties valued at less than \$2,000 if there is a special assessment to be collected.

Article 13A of the California Constitution states, "The maximum amount of any ad valorem tax on real property shall not exceed one percent (1%) of the full cash value of such property. The one percent tax is to be collected by the counties and apportioned according to law to the districts within the counties."

KEYES COMMUNITY SERVICE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

**3. Property Taxes (continued)**

The District has elected under state law (Teeter) to receive all of the annual property assessments in three installments as follows:

December	55%
April	40%
June	<u>5%</u>
	<u>100%</u>

**4. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2015 are recorded as prepaid items.

**5. Restricted Assets**

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

**6. Capital Assets**

Capital assets, which include property, plant, and equipment are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of \$1,000 for property, plant, and equipment. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is recorded in the Proprietary Funds in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service life using the straight-line method.

**7. Compensated Absences**

District employees earn vacation leave, accrued holiday and compensation time. It may be either taken or accumulated until paid upon termination or retirement. Sick leave may be accumulated without limitation, but upon retirement, an employee will be paid for a maximum of 200 hours of any unused sick leave. Sick leave is not paid if an employee quits or is terminated. In accordance with generally accepted accounting principles, an accrual for compensated absences is reflected in the accompanying general purpose financial statements.

KEYES COMMUNITY SERVICE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

**8. Pensions**

Plan Description

The District is a major participant in the Stanislaus County Employees Retirement Association (StanCERA), a retirement system organized under the 1937 Retirement Act. StanCERA is a cost-sharing multiple-employer Public Employee Retirement System (PERS). StanCERA provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits. Health and welfare insurance for retirees and their dependents is available however administered independently of StanCERA. The plan is administered by the Stanislaus County Employees Retirement Association. An actuarial valuation is performed for the system annually as a whole and the contribution rate is determined for each participating entity. The participating entities are the County, City of Ceres and six special districts located in the County not governed by the County's Board of Supervisors. StanCERA issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for StanCERA. The CAFR may be obtained by writing to Stanislaus County Employees Retirement Association, P O Box 3150, Modesto, CA 95353-3150 or by calling (209) 525-6393.

The StanCERA CAFR is prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. All other securities are valued at the last reported market price at current exchange rates.

Summary of Plans and Eligible Participants

General Tiers 1, 2, 4, 5 (not open to new members)	Vests after five years of credited service & may retire at age 50 or older with 10 or more years of membership with StanCERA or any age with 30 or more years of credited service.
General Tier 3 (not open to new members)	Vests after ten years of credited service & may retire at age 55 with 10 or more years of credited service.
General Tier 6 (open to new members)	Vests after five years of credited service & may retire at age 52 with 5 years of service credit or age 70 regardless of service credit.
Safety Tiers 1, 2, 4, 5 (not open to new members)	Vests after five years of credited service & may retire at age 50 or older with 10 or more years of membership with StanCERA or any age with 20 or more years of credited service.
Safety Tier 6 (open to new members)	Vests after five years of credited service & may retire at age 50 with 5 years of service credit or age 70 regardless of service credit.

Benefits Provided

Members terminating employment before accruing five years (Ten years for Tier 3) of retirement service credit forfeit the right to receive retirement benefits unless they establish reciprocity with another public agency within the prescribed time period. Non-vested members who terminate

KEYES COMMUNITY SERVICE DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2015

**8. Pensions (continued)**

service are entitled to withdraw their accumulated contributions plus accrued interest. Members who terminate after earning five or ten years of retirement service credit may leave their contributions on deposit and elect to take a deferred retirement. Difference between expected or actual experience for vested and non-vested benefits may result in an increase or decrease to pension expense and net pension liability.

For members with Tier 1, Tier 4 or Tier 5 benefits, final average salary is the average monthly salary based on the highest twelve consecutive months of earnings. For members with Tier 2, Tier 3, or Tier 6 benefits, final average salary is the average monthly salary based on the highest thirty-six consecutive months of earnings.

The retirement benefit for Tier 1, Tier 2, Tier 4, Tier 5, and Tier 6 members includes a post-retirement cost-of-living (COL) adjustment based upon the Consumer Price Index. COL increases/decreases are limited to a maximum of 3% annually. Total COL decrease(s) cannot exceed the cumulative amount of previous COL increase(s). Tier 1, Tier 2, Tier 4, Tier 5, and Tier 6 provide death and disability benefits.

Those members participating in Tier 1, Tier 2, Tier 4, Tier 5, and Tier 6 are required by statute to contribute to the pension plan. Members' contribution rates for Tier 1, Tier 2, Tier 4, and Tier 5 are formulated on the basis of the age at date of entry and the actuarially calculated future benefits. Members' contribution rate for Tier 6 is a flat rate based on the actuarially calculated future benefit. The District is required by statute to contribute the remaining amounts necessary to finance the estimated benefits accrued to its members.

Member and employer contribution rates for each plan are as follows:

<u>PLAN</u>	<u>EMPLOYER CONTRIBUTION RATES</u>	<u>EMPLOYEE CONTRIBUTION RATES</u>
General Tier 1	24.66%	4.83-7.29%
General Tier 2	18.30%	6.29-10.48%
General Tier 3	13.75%	Non-contributory
General Tier 4	25.57%	4.71-7.09%
General Tier 5	20.63%	7.60-11.70%
General Tier 6	18.49%	7.63%
Safety Tier 2	28.94%	10.32-16.36%
Safety Tier 4	44.96%	7.87-11.36%
Safety Tier 5	33.95%	11.71-17.12%
Safety Tier 6	27.64%	12.82%

The District's contributions to StanCERA for the past two fiscal years were equal to the required contributions for each year and is noted in the below chart. The District does not contribute towards post employment benefits other than retirement.

<u>Fiscal Year Ended</u>	<u>Required Contributions</u>
June 30, 2014	\$42,228
June 30, 2015	\$43,946

KEYES COMMUNITY SERVICE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

**8. Pensions (continued)**

The County Employees' Retirement Law of 1937 establishes the basic obligations for employer and member contributions and benefits to and of the retirement system. The actual employer and member contribution rates in effect each year are based on recommendations made by an independent actuary and adopted by the Board of Retirement.

StanCERA provides a death benefit of \$5,000 paid to the beneficiary or estate if a member dies after retirement, provided that Stanislaus District was the members' last public employer.

Ad-hoc benefits are non-vested benefits determined by the Board of Retirement. Approved changes to the excess earnings policy by the Board of Retirement on June 30, 2014 placed restrictions on offering ad-hoc benefits, specifically that the system must be 100% actuarially funded prior to the Board of Retirement offering any ad-hoc benefits. StanCERA is 87.5% actuarially funded as of June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability of \$301,944 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the liability used to calculate the net pension liability was determined by an actuarial valuation date June 30, 2013, updated to June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2015, the District's proportion was 0.1034%, compared to 0.0903% at June 30, 2014, an increase of 0.0131%.

For the year ended June 30, 2015, the District recognized pension expense of \$148,984. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method and plan benefits. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Balance of Deferred Outflows and Inflows Due To:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,758	\$ -0-
Net difference between projected and actual earnings	-0-	39,389
Changes in proportionate share	34,374	5,255
Changes proportion and differences between employer contributions and proportionate share of contributions	<u>2,153</u>	<u>8,913</u>
Total	<u>\$ 38,285</u>	<u>\$ 53,557</u>

KEYES COMMUNITY SERVICE DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2015

**8. Pensions (continued)**

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

The District contributions made subsequent to the measurement date are reported as deferred outflows of resources for fiscal year ending June 30, 2015 and will be recognized as reduction of the net pension liability in the fiscal year ending June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended	Amount
2016	\$ 5,332
2017	5,332
2018	5,332
2019	5,332
Thereafter	-0-
	\$ 21,328

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

Inflation	3.25%
Amortization growth rate	3.50%
Salary increases	3.50% plus merit component
COLA increases	2.70% for those eligible for COLA
Investment rate of return	7.75%, net of investment expense
Post-Retirement Mortality	Sex distinct RP-2000 Combined Mortality, projected to 2020 using scale AA

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2012.

KEYES COMMUNITY SERVICE DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2015

**8. Pensions (continued)**

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
Domestic Equities		
US Large Cap	7.10%	30.50%
US Small Cap	7.50%	7.70%
International Equities		
Int'l Developed	7.70%	13.50%
Emerging Market Equity	8.50%	4.50%
US Fixed Income	2.50%	29.80%
Real Estate	5.70%	3.50%
Direct Lending	5.00%	7.50%
Infrastructure	5.50%	3.00%
Cash	1.50%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	1% Decrease <u>6.75%</u>	Discount Rate <u>7.75%</u>	1% Increase <u>8.75%</u>
District's proportionate share of the net retirement plan	\$ 584,807	\$ 301,944	\$ 67,278

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued StanCERA CAFR.

**9. Long-term Debt**

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

KEYES COMMUNITY SERVICE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

**10. Net Position & Fund Equity**

In the government-wide financial statements and proprietary fund financial statements, Net Position are reported in three categories: Net Position invested in capital assets, net of related debt; restricted Net Position and assigned Net Position. Restricted Net Position represent Net Position restricted by parties outside the District (such as creditors, grantors, contributors, laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The District's restricted Net Position are temporarily restricted (ultimately expendable assets). All other Net Position are considered assigned for District operations.

The District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The categories are defined as *restricted*, *committed*, *assigned*, and *unassigned* based on the relative strength of the constraints that control how specific amounts can be spent. In the fund financial statements, the District's governmental funds report the following classifications of fund balances:

Restricted fund balance – amounts that can be spent only for specific purposes because of restrictions from external sources (creditors, laws of other governments etc.) or constitutional provisions or enabling legislation. The District has a balance in the water proprietary fund that is restricted by debt covenants, and the fund balance in the governmental activities fund is restricted for street lighting.

Assigned fund balance – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The District's board is the highest level of decision making authority for the District and is authorized to assign amounts to a specific purpose. The District's proprietary fund balances are assigned to be used for continued operations of the respective services.

It is the District's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available; and to first apply committed, then assigned, then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**11. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

KEYES COMMUNITY SERVICE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for all governmental activities funds. All annual appropriations lapse at fiscal year end.

Prior to June 30<sup>th</sup>, the proposed budget is presented to the Board of Directors for review. The Board of Directors holds public hearings and may add to, subtract from or change appropriations.

**B. Risk Management:**

Risk exposures that may exist in connection with activities of the District, are addressed by the district's risk management policy. The District's risk management policy includes implementation of safety policies and procedures. As a part of the District's risk management policy, commercial insurance policies are purchased to cover substantially all expected losses from most types of routine risks of loss such as those due to torts; asset theft or damage; employee injuries; and natural disasters; accordingly, the District does not incur a significant self-insured retention.

The District believes its exposure to risks of loss due to business interruption and errors or omissions is fully provided for with purchased insurance.

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. Cash and Investments**

Cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 3,050,489
Total cash and investments	<u>\$ 3,050,489</u>

Cash and investments as of June 30, 2015 consist of the following:

Cash on hand	\$ 1,000
Deposit with financial institution	255,263
Investments in Stanislaus County Treasurer's Pool	<u>2,794,226</u>
Total cash and investments	<u>\$ 3,050,489</u>

KEYES COMMUNITY SERVICE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

**A. Cash and Investments (continued)**

The District maintains its cash and investment in the Stanislaus County Treasurer's Pool for the purpose of increasing interest income through investment activities. This pool, which is available for use by all funds, is displayed on the statement of Net Position/balance sheet as "cash and investments". The Stanislaus County Treasurer's Pool generally limits participation in the pool to those agencies and districts required to participate by legal provisions of the California State Government Code for those agencies and districts.

The share of each fund in the Stanislaus County Treasurer's Pool is separately accounted for and interest is apportioned quarterly based on the relationship of the fund's average daily cash balance to the total of the pooled cash and investments.

The Stanislaus County Treasurer's Pool is not SEC-registered, but is invested in accordance with California State Government Code section 53600 et. seq. California State Government Code requires the formation of an Investment Oversight Committee, which is charged with overseeing activity in the pool for compliance to policy and code requirements. To this end, the Oversight Committee reviews the monthly investment report prior to presentation to the Board of Supervisors and causes an audit of investments to occur annually.

In addition to the restrictions and guidelines of the Government Code, cash and investments with the County Treasurer are invested pursuant to investment policy guidelines established by the County Treasurer and accepted by the Board of Supervisors. The objectives of the policy are, in order of priority, legality of investments, safety of principal, liquidity and yield.

**Interest Rate Risk** – This is the risk of loss due to the fair value of an investment falling due to rising interest rates. The County's policy for interest rate risk for The Stanislaus County Treasurer's Pool, are to allow investments to be sold prior to maturity at a loss if such sale will allow investment in a higher yield vehicle and any loss upon sale can be more than compensated by additional interest earning within a six month period. Of the County's \$1.05 billion portfolio, over 36% of the investments have a maturity of one year or less. No investment has maturity greater than 5 years.

**Credit Risk** – This is the risk of loss due to credit quality rating of investments in debt securities as described by nationally recognized rating agencies. Stanislaus County Treasurer's Pool is permitted to hold investments of issuers with a short-term rating of "A-1" and a minimum long-term rating of "A" by two of the top nationally recognized statistical rating organizations (rating agencies). Additionally, the County is permitted to invest in U.S. Treasuries, Government Sponsored Enterprises (Agencies), the State's Local Agency Investment Fund and collateralized certificates of deposit that are un-rated.

**Concentration of Credit Risk** – This is the risk of loss due to a large concentration of investments in any one issuer. Investments issued or explicitly guaranteed by the U.S. Government and investments in the mutual funds, external investment pool and other pooled investments are not considered at risk.

In the Stanislaus County Treasurer's Pool, over 59% of the County's investments, including collateral on repurchase agreements, were in the U.S. Government or Government Sponsored

KEYES COMMUNITY SERVICE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

**A. Cash and Investments (continued)**

Enterprises (Agencies). Of the 41% of the portfolio invested in other types of investments, no investment in a single issuer exceeds 5%.

**Custodial Risk** – This is the risk of loss due to uninsured or uncollateralized deposits.

In the Stanislaus County Treasurer’s Pool, all negotiable instruments are held by the County’s custodian or a third party in the County’s name. The County did not participate in securities lending.

**B. Accounts Receivable**

Receivables at June 30, 2015 for the District’s individual major funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows. All receivable are expected to be collected within one year.

	<u>Street Lights</u>	<u>Total</u>	
Governmental Activities:			
Utility Assessment	<u>1,910</u>	<u>1,910</u>	
Total	<u><u>1,910</u></u>	<u><u>1,910</u></u>	
Business-Type Activities:	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Utility Billing	<u>130,500</u>	<u>119,575</u>	<u>250,075</u>
	<u><u>130,500</u></u>	<u><u>119,575</u></u>	<u><u>250,075</u></u>

**C. Accounts Payable and Other Liabilities**

Payables at June 30, 2015 for the District’s individual major funds in the aggregate are as follows:

Business-Type Activities	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Vendors/Developers	\$ 3,087	\$ 22,924	\$ 26,011
Salaries and Benefits	15,869	15,932	31,801
Accrued Interest	-0-	-0-	-0-
Customer Deposits	<u>80,137</u>	<u>-0-</u>	<u>80,137</u>
Total Payables and Other	<u><u>\$ 99,093</u></u>	<u><u>\$ 38,856</u></u>	<u><u>\$ 137,949</u></u>

KEYES COMMUNITY SERVICE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

**D. Capital Assets**

Capital asset activity for the year ended June 30, 2015 was as follows:

<b>Business-Type Activities:</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 48,133	\$ -0-	\$ -0-	\$ 48,133
Construction in progress	<u>1,176,092</u>	<u>359,655</u>	<u>-0-</u>	<u>1,535,747</u>
Total capital assets not being depreciated	<u>1,224,225</u>	<u>359,655</u>	<u>-0-</u>	<u>1,583,880</u>
 Capital assets being depreciated:				
Loan Fees	8,227	-0-	-0-	8,227
System	6,238,244	32,981	-0-	6,271,225
Equipment and Vehicles	643,764	-0-	-0-	643,764
Building and Improvements	<u>77,677</u>	<u>-0-</u>	<u>-0-</u>	<u>77,677</u>
Total capital assets being depreciated:	<u>6,967,912</u>	<u>-0-</u>	<u>-0-</u>	<u>7,000,893</u>
 Less accumulated depreciation for:				
Loan Fees	(8,227)	-0-	-0-	(8,227)
System	(2,776,748)	(175,165)	-0-	(2,951,913)
Equipment and Vehicles	(519,734)	(21,110)	-0-	(540,844)
Building and Improvements	<u>(74,416)</u>	<u>(182)</u>	<u>-0-</u>	<u>(74,598)</u>
Total accumulated depreciation	<u>(3,379,125)</u>	<u>(196,457)</u>	<u>-0-</u>	<u>(3,575,582)</u>
 Net capital assets being depreciated	<u>3,588,787</u>	<u>(163,476)</u>	<u>-0-</u>	<u>3,425,311</u>
 Total net capital assets – business Type activities	<u>\$ 4,813,012</u>	<u>\$ 196,179</u>	<u>\$ -0-</u>	<u>\$ 5,009,191</u>

**D. Capital Assets (continued)**

Depreciation was charged to functions/programs of the primary government as follows:

Business-Type Activities:

Water	\$ 57,560
Sewer	<u>138,897</u>
Total Depreciation expense – business-type activities	<u>\$ 196,457</u>

KEYES COMMUNITY SERVICE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

**E. Long-Term Debt**

The District is authorized to issue bonds in the total amount of \$1,250,000 to pay the costs of land acquisition, engineering, and construction of a water treatment facility for arsenic removal (Arsenic Mitigation Project). As of June 30, 2015, the District has issued \$1,056,000 of bonds. The bonds are payable from general revenues of the Water enterprise fund.

The bond debt issued in two draws by the District as of June 30, 2015 is:

	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>
First Draw	07-30-2013	1.96%	01-01-16	\$ 856,000
Second Draw	05-12-2014	1.96%	01-01-16	\$ 200,000

Activity for the fiscal year ended June 30, 2015:

	<u>Outstanding Balance at 06-30-13</u>	<u>Issued During Current Year</u>	<u>Principal Repayments</u>	<u>Outstanding Balance at 06-30-14</u>
Bridge Loan	\$ 966,000	\$ -0-	\$ (90,000)	\$ 876,000
Total of all bonds	<u>\$ 966,000</u>	<u>\$ -0-</u>	<u>\$ (90,000)</u>	<u>876,000</u>
Less: Current Portion				<u>(876,000)</u>
Long-Term Debt				<u>\$ -0-</u>

The Bridge Loan bonds were sold on July 30, 2013 exclusively to Western Alliance Bank in a nonpublic transaction; accordingly, the bonds are not assigned a rating by a public credit rating agency. The Bridge Loan bonds in the aggregate principal amount of \$1,056,000 were issued to provide funds to pay costs of land acquisition, engineering, and construction of public water treatment facilities (Arsenic Mitigation Project). The proceeds were distributed as follows to accounts established with the fiscal agent for purposes of administering the proceeds:

Cost of Issuance Account	\$ 40,187
Project Fund	988,586
Underwriter's Discount	<u>27,227</u>
Proceeds from Bond Issue	1,056,000
Original Issue Discount (Premium)	<u>-0-</u>
Par Amount of Bonds	<u>\$ 1,056,000</u>

KEYES COMMUNITY SERVICE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

**E. Long-Term Debt (continued)**

Principal and interest on the bonds are due July 1 and January 1 of each year. The July 1, 2016 payment was made early, in June, 2015. Future debt service requirements are as follows:

<u>Fiscal Year</u>	<u>Serial Bonds</u>	<u>Term Bonds</u>	<u>Interest</u>	<u>Total</u>
2016	-0-	876,000	8,585	884,585
Total	<u>\$ -0-</u>	<u>\$ 876,000</u>	<u>\$ 8,585</u>	<u>\$ 884,585</u>

The following is a summary of other Water Funds debt transactions including annual redemption requirements for the year ended June 30, 2015:

	<u>Original Issue</u>	<u>Balance 6/30/14</u>	<u>Additions</u>	<u>Maturities</u>	<u>Balance 6/30/14</u>
Arsenic Mitigation Project Key	\$ -0-	\$ 242,009	\$ -0-	\$ 96,804	\$ 145,205

Annual other debt service requirements of the Water Funds are as follows:

<u>Year Ending June 30,</u>	<u>Arsenic Mitigation Loan Principal</u>	<u>Arsenic Mitigation Loan Interest</u>	<u>Total Debt Service</u>
2016	96,804	-0-	96,804
2017	48,401	-0-	48,402
Total	<u>\$ 145,205</u>	<u>\$ -0-</u>	<u>\$ 145,205</u>

The following is a summary of Sewer Funds debt transactions including annual redemption requirements for the year ended June 30, 2015:

Keyes Community Service District signed a reimbursement agreement with the City of Turlock for the District request for construction of a sewer pipeline which provides the District 50% of the capacity located on Tegner Road. For this percentage of pipeline capacity the District is obligated to pay \$1,071,564. Annual payments of \$107,156 plus variable-rate interest began on July 1, 2008 and extend for ten years. The reimbursement balance for the year ended June 30, 2015 was \$214,313.

KEYES COMMUNITY SERVICE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

**E. Long-Term Debt (continued)**

The annual debt service requirement of the sewer funds are as follows:

	Year Ending June 30	Turlock Agreement
2016		107,156
2017		107,157
Total		\$ 214,313

The following is a summary of changes in the District's total long-term debt and other long-term liabilities during the year ended June 30, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Business-type Activities:</b>					
Loans Payable	\$ 242,009	\$ -0-	\$ (96,804)	\$ 145,205	\$ 96,804
Bonds Payable	966,000	-0-	(90,000)	876,000	876,000
City of Turlock Agreement	321,469	-0-	(107,156)	214,313	107,156
Compensated Absences	20,298	-0-	(4,622)	15,676	-0-
Long-term liabilities of Business-type activities	\$ 1,549,776	\$ -0-	\$ (298,582)	\$ 1,251,194	\$1,079,960

Interest expense was charged to functions/programs of the primary government as follows:

Business-Type Activities:

Water	\$ 18,493
Sewer	827
Total Depreciation expense – business-type activities	\$ 19,320

**F. Prior Period Adjustments**

Prior period adjustments have been recorded to reflect the adoption of GASB 68 recognition of Net Pension Liability and associated Deferred Inflows and Deferred Outflows as of June 30, 2014; and to reflect the correction of certain payroll liability balances as of June 30, 2014.

<u>Item</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Deferred Outflows	21,114	21,114	42,228
Net Pension Liability	(105,230)	(105,230)	(210,460)
Subtotal Pension Adjustment	(84,116)	(84,116)	(168,232)
Payroll Liability	(8,940)	26,710	17,770
Total Prior Period Adjustment	(93,056)	(57,406)	(150,462)

KEYES COMMUNITY SERVICE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

**IV. OTHER DISCLOSURES**

**A. Concentrations - Wastewater Contract**

The District's wastewater disposal is contracted with the City of Turlock. The District is dependent on the City of Turlock's ability to provide wastewater collection services. The District's wastewater disposal fee rates are based on the fees the City of Turlock charges the District for collection services. Uncertainty exists regarding future rate changes by the City of Turlock, and the potential future demands for expansion of Turlock's wastewater collection facilities. The amount of the liability cannot be determined at this time.

**B. Interfund Receivables and Payables**

There are no outstanding interfund receivables or payables at year-end.

**C. Transfers**

Interfund transfers for the year ended June 30, 2015 were made for cash management purposes.

**D. Litigation in Progress**

The District is a plaintiff in a lawsuit naming several corporate parties as defendants, seeking damages related to water contamination. To date, no counter claims have been brought and legal counsel does not anticipate that any will be forthcoming. In counsel's professional opinion, there are no unasserted claims against the District related to or arising out of this matter that are probable of assertion and that, if asserted, would have at least a reasonable possibility of an unfavorable outcome.

No contingent liabilities have been recognized in these financial statements as a result of any litigation case.

**E. Evaluation of Subsequent Events**

The District has evaluated subsequent events through June 27, 2016, the date which the financial statements were available to be issued.

KEYES COMMUNITY SERVICE DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
 JUNE 30, 2015

**REQUIRED SUPPLEMENTARY INFORMATION, GASB 68 - PENSION SCHEDULES**

Note: GASB 68 requires data to be presented for the last 10 years, however, implementation was not required until 2014; therefore, additional years will be presented in these schedules as data becomes available.

<b>Schedule of the District's Proportionate Share of the Net Pension Liability</b>		
	<u>FYE 6/30/2014</u>	
District's proportion of the net pension liability (asset)	9.03%	
District's proportion share of the net pension liability (asset)	\$ 210,460	
District's covered-employee payroll	\$ 200,342	
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	105.05%	
Plan fiduciary net position as a percentage of the total pension liability (asset)	88.49%	
<b>Schedule of the District's Contributions</b>		

	<u>FYE 6/30/2014</u>
Actuarially determined contribution	\$ 42,228
Actual contributions	<u>(42,228)</u>
Contribution deficiency (excess)	<u>\$ -0-</u>
District's covered-employee payroll	<u>\$ 200,342</u>
Actual contributions as a percentage of District's covered-employee payroll	21.08%



## Robert A. Hawks, Jr., CPA

• think **BOLDLY** • plan **CAREFULLY** • execute **PRECISELY** •

### REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governing Board  
Keyes Community Services District  
Modesto, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Keyes Community Services District, as of and for the year ended June 30, 2015, which collectively comprise the Keyes Community Services District's basic financial statements and have issued our report thereon dated June 27, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

The District's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2012-4, 2012-6, and 2015-1 to be a material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2012-3, and 2013-1 to be significant deficiencies.

### Compliance

As part of obtaining reasonable assurance about whether the District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the governing board, management and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant

June 27, 2016

KEYES COMMUNITY SERVICES DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2015

**STATUS OF PRIOR YEAR FINDINGS**

**2012-3 INTERNAL CONTROLS OVER CASH (SIGNIFICANT DEFICIENCY)**

**FINDING:** During the audit it was noted that the internal controls over cash were deficient. Cash for payments received over the counter are primarily, but not solely, received by one employee of the District.

**CURRENT STATUS:** Partially addressed: internal controls over cash handling have been improved; cash and receivable reports are reviewed regularly by the General Manager.

**MANAGEMENT RESPONSE:** *The staff is going to cross check each other's work. This means that the money will be counted by more than one person and the reports will be looked at by more than one person. Each employee that has use of the Cash Register also has their own access code.*

**2012-4 FIXED ASSET MANAGEMENT (MATERIAL WEAKNESS)**

**FINDING:** During the course of the audit, the audit team discovered that the fixed asset schedule was not being maintained by District staff on a regular and consistent basis.

**CURRENT STATUS:** No fixed asset activity in the current fiscal year, however the schedule was not updated for annual depreciation recognition. We recommend that staff review and maintain the schedule on an ongoing basis, and that a physical inventory and inspection of fixed assets be compared to the schedule.

**MANAGEMENT RESPONSE:** *The Fixed Asset Management duties and responsibilities are being assigned to Managerial Staff.*

**2012-6 PREPARATION OF FINANCIAL STATEMENTS (MATERIAL WEAKNESS)**

**FINDING:** Management required our assistance to prepare the financial statements.

KEYES COMMUNITY SERVICES DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2015

**CURRENT STATUS:** Management's responsibility for the financial statements includes preparation of the statements and notes.

**RECOMMENDATION:** Assistance with financial statement preparation is not uncommon for an entity of this size, but should be considered as the board is exercising its oversight duties with respect to financial reporting.

**MANAGEMENT RESPONSE:** *Staff will seek training on financial statement preparation when time and funding are available.*

**2013-1 INSURANCE LIABILITIES (SIGNIFICANT DEFICIENCY)**

**FINDING:** During the audit, it was noted that the certain employee benefit and insurance liabilities had been miscalculated and over-accumulated within the payroll processing and accounting systems. The error has been corrected by staff, but was undetected during the course of the year.

**CURRENT STATUS:** Staff took measures to correct errors during the years ended June 30, 2014, and June 30, 2015, however, some periodic financial reports provided to management, the board of directors, and others during the year were misstated; expenses and liabilities were overstated. The balances were corrected as of June 30, 2014 and 2015 and the staff is monitoring the system going forward.

**RECOMMENDATION:** The District should ensure that accurate financial information is available to management and directors throughout the year. The accuracy, relevance, and timeliness of financial information can have a significant impact on decision making within the organization.

**MANAGEMENT RESPONSE:** *The balance sheets are being looked at monthly and attention is being put on the accounts that have been off in the past. New accounts have been set up to keep the revenues and expenses separate for engineering fees, ATF, 123 TCP and Developer Fees.*

KEYES COMMUNITY SERVICES DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2015

**CURRENT YEAR (NEW) FINDINGS**

**2015-1 CUSTOMER REFUNDABLE DEPOSITS (MATERIAL WEAKNESS)**

**FINDING:** During the audit, it was noted that customer refundable deposit balances were not properly supported in the accounting records.

**EFFECT:** Customers requesting refunds were sometimes found by staff to have no deposit recorded on account. In several such instances, refunds were paid to the customer by applying the amount to a temporary account. Subsequent attempts to reconcile or verify the temporary account proved impossible due to a lack of records.

**RECOMMENDATION:** The District should implement procedures requiring 1) proper initial recording of all customer deposits received, 2) record retention of all customer payment and deposit transaction documentation, and 3) verification of customer deposit balances prior to issuing refunds.

**MANAGEMENT RESPONSE:** *We have started using a one step procedure to take deposits and start new customers. The month end is being looked at by the Utility Billing Cash Management Clerk and the Office Supervisor to double check the new customers and their deposit history. The Office Supervisor is running a Trial Balance monthly just to make sure that nothing has been over looked. Each customer folder is going to be pulled and gone through to make sure that deposits were put toward the customers accounts starting in 2013 to current.*